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## Philippines

### Oilseeds and Products Annual

#### Philippine Oilseeds Situation and Outlook

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**Report Highlights:**

Domestic copra production and crush will increase in MY09/10 but are expected to decline the following year reflecting the behavior of coconut output in the next two years. Copra meal and coconut oil (CNO) exports are expected to rise this year compared to the previous year's level due to ample copra supply. The following year, exports of CNO are likely to decline while those for copra meal expected to stay flat compared to the MY09/10 level. Soybean production and crush remains insignificant and no significant growth in bean imports are projected through 2011. Production problems of the domestic hog and broiler industries will result in the decline in soybean meal (SBM) imports in 2010. SBM imports are likely to increase the following year as demand recovers and picks up. Soybean oil (SBO) production will decline in 2010 and is likely to remain flat in 2011 due to weak demand. Marginal increases in SBO imports through 2011 are expected as a result of

relatively flat SBO production enhanced by stable bean prices and the renewed strengthening of the Philippine Peso.

**Executive Summary:**

Domestic copra crush will be higher-than-expected in MY08/09 resulting in greater copra meal and coconut oil (CNO) production in the next two (2) years. Copra production is expected increase in MY09/10 but is expected to decline the following year reflecting the behavior of overall coconut production in the next 2 years. Copra imports are likely to decline during the period due to adequate stock levels and no copra exports are expected through MY10/11. Local soybean (SB) production will remain minute through 2011. Bean crush is expected to decline in 2010 as a result of increasing production costs as well as uncertainty brought about by the change in the Philippine government as a result of the May 2010 elections. Bean crush demand is expected to stay at this level the following year. No dramatic change in SB imports is expected through 2011.

Although copra meal consumption figures will increase in MY09/10, and stay at this level the following year, they will reflect more spoilage losses rather than meal actually consumed as feed. MY09/10 exports of copra meal are likely to increase from the previous year's level as a result of improved copra meal production during the period. Despite the expected decline in copra meal output in MY10/11, copra meal exports during year will likely remain flat due to adequate inventories.

For soybean meal (SBM), 2010 production will decline from the previous year's level and no growth is predicted the following year. SBM consumption will decline this year due to dampened feed demand and will likely recover modestly in 2011. Imports of SBM this year are expected to contract as a resurgence of disease-related problems and the extreme heat brought about by the El Nino weather disturbance dampen feed demand by the local hog and broiler industries. Enhanced by the continued easing of prices, SBM imports are likely to increase in 2011 as the weather pattern likely will normalize and feed demand expected to recover during the year.

CNO production will continue to reflect copra output and will be higher-than expected in MY08/09. CNO output will again increase from the previous year's level in MY09/10 to support heightened domestic consumption as well as increased exports during the year. Exports of CNO the following year, however, are likely to decline consistent with the expected decline in CNO output during the year. Renewed strengthening of the Peso will have a dampening effect on CNO exports in MY10/11 which are expected to decline from the previous year's level due to strong local demand.

Soybean oil (SBO) production will decline in 2010 as a result of lower bean supply compared to previous years' level. Bean crush and output will likely remain at this level in 2011 owing to weak demand. The renewed strengthening of the Philippine Peso starting this year, however, is expected to encourage marginal increases in SBO imports through 2011.

**Commodities:**

Oilseed, Copra

## Oilseed, Soybean

### **Production:**

After expanding 3.9 percent in 2008, Philippine farm output growth failed to reach its 2009 target due to the devastating typhoons (Ketsana and Parma) in the later part of last year. Data from the Bureau of Agricultural Statistics (BAS) of the Philippine Department of Agriculture (DA) show that the domestic farm sector grew 0.4 percent last year, below the revised 0.5 to 1.5 percent target growth for 2009. All subsectors posted output gains except for crops. Despite this, coconut production grew 2.2 percent in 2009 compared to its 2008 level, according to the same source, and accounted for 5.4 percent of overall Philippine farm output last year.

No significant growth is predicted for Philippine farm output in 2010 as the storm damages in the main island of Luzon is likely to have far-reaching effects. In addition, a prolonged dry spell in the first half of this year as a result of an El Nino weather disturbance will further constrain any farm growth this year.

Coconut production in MY09/10, however, was raised and is expected to surpass the previous year's level. The United Coconut Association of the Philippines (UCAP), in its Philippine Coconut Production Forecast for 2010, forecasts coconut output this year to reach 2.7 million MT in copra terms. On a market year basis, however, Post estimates coconut production in MY09/10 to be lower although output during the year is expected to increase from the previous year's level. Copra production will likely decline the following year or in MY10/11 due to stress brought about by the prolonged El Nino dry spell during the previous year.

For SBs, local production is expected to remain insignificant relative to overall Philippine oilseed output through 2011.

### **Consumption:**

Copra crush continues to be basically a function of copra supply. Hence, copra crush in MY08/09 was considerably raised due to a surge in coconut oil demand for both domestic and foreign markets. Copra crush was also raised in MY09/10 and expected to increase from the previous year's level due to higher-than-expected copra production during the year, as well as increased demand for CNO.

Copra crush in MY09/10 would have been higher had it not been for recent and regular power outages particularly in the southern island of Mindanao. The result of a serious power deficit, the electric disruptions have increasingly become more frequent starting early 2010. The deficit has been exacerbated by limited water in major hydroelectric dams (brought about by the El Nino drought). The power outages are expected to seriously affect industrial output particularly in Mindanao, which is a major coconut producing area.

The following year, copra crush was adjusted downwards to reflect the expected decline in copra output in MY10/11. Copra crush during the period is likewise expected to decline from the previous year's level.

In addition to local power problems, 2010 SB crush was considerably pared down due to a contraction in local feed demand (see CONSUMPTION, Oilmeals Section). As mentioned in previous annual reports, local bean crush is as much after the meal as it is for the SBO. Hence, feed demand is also a determinant of whole bean crush behavior. No dramatic change in bean demand for food and feed use is expected through 2011.

Philippine Presidential elections in May 2010 and the expected change in government (national and local) will bring general uncertainty over economic policy directions. Local businesses including SB crush facilities are likely to adopt a wait-and-see position regarding the possible policy changes. The uncertain business climate is likely to extend through 2011 as result of the expected personnel and policy changes in both national and local governments due to the election results.

**Trade:**

Copra imports in MY09/10 were pared down and are likely to decline from the previous year's level due to improved coconut production during the year. The decline in copra imports are expected to extend through MY10/11 as a result of adequate stock levels during the period.

No copra exports are expected in the next 2 years due to firm domestic demand during the period or through MY10/11.

For SBs, bean imports were pared down considerably in 2010 due to weak demand as well as uncertainty brought about by the change in government. No major change is expected for SB imports through 2011 compared to the 2009 level.

**Stocks:**

Ending copra stocks in MY08/09 were pared down considerably as a result of upward revisions made to crush during the year. Copra ending inventories the following year are likely to increase slightly due to improved copra output in MY09/10. No dramatic movement in copra stocks is expected the following year.

SB inventory in 2010, on the other hand, is expected to marginally decline through 2011 due to weakness in overall demand during the period.

**Policy:**

According to the January 2009 Tariff and Customs Code of the Philippines, copra imports (HS Code 12.03) are levied a 10 percent import tariff while soybeans (HS Code 12.01) carry a one (1) percent import duty under the Most Favored Nation (MFN) tariff scheme for the period 2008-2010. Copra and soybean imports originating from other ASEAN countries may be imported duty-free starting January 1, 2010 under the Common Effective Preferential Tariff (CEPT) scheme for the ASEAN Free Trade Area (AFTA)/ASEAN Free Trade in Goods Agreement (ATIGA).

The lower CEPT duties of the AFTA/ATIGA were implemented by Executive Order no. 850 signed by President Gloria Macapagal-Arroyo on December 2009.

A review of tariffs on goods traded outside preferential agreements is currently being reviewed as the current MFN duties will expire by the end of this year. The review will culminate in an updated tariff structure for the period 2011-2015, although a final decision will likely happen only after the May 2010 elections.



**Commodities:**

Meal, Copra

Meal, Soybean

**Production:**

Copra meal production in MY08/09 was raised as a result of higher copra crush during the year. The following year, copra meal production is expected to increase slightly from the MY08/09 consistent with upward revisions made to copra crush during the period. For MY10/11, copra meal output will decline from the previous year's level and reflect the expected decline in copra output and crush during the year.

SBM production this year was pared down substantially and expected to decline from the previous year's level as a result of weak demand. No dramatic change in SBM production is expected in 2011 as a result.

**Consumption:**

Philippine feed demand is expected to contract in 2010. The predicted rise in meat demand as a result of election-campaign spending was less-than-expected. Major animal feed end-users likewise are experiencing production issues. Disease outbreaks again plagued the hog sector (the dominant feed consuming subsector) and are expected to result in the industry's contraction this year. In addition, the high temperatures brought about by the El Nino weather disturbance have reportedly dampened feed consumption of farm animals, including chickens. Increased imports of pork and chicken meat, two non-traditional Philippine imports, have already been reported. Overall oilmeal consumption in MY09/10 is therefore expected to decline from the previous year's level due to a contraction in animal feed demand.

The increase in copra meal demand in MY09/10 compared to the previous year's level is largely the result of increased spoilage losses and does not represent actual growth in copra meal use as feed. Copra meal demand is likely to stay at this level in MY10/11.

For SBM, consumption this year was pared down and expected to contract compared to the previous year's level owing to the production-related problems of the domestic hog and chicken industries. SBM consumption the following year was also revised downwards but expected to increase from the 2010 level and is premised on the return to more normal weather conditions, and the easing of disease-related concerns of the local hog subsector.

**Trade:**

Copra meal exports in calendar year 2009 were adjusted according to GTA data. Exports of copra meal in MY10/11 are likely to decline from the previous year's level due to the expected decline in local copra production.

Despite the easing of prices, imports of SBM in 2010 were pared down and expected to contract from the previous year's level due to depressed feed demand. Local feedmillers had anticipated a surge in meat demand and imported SBM aggressively during the turn of calendar year 2009 but had to cut back on imports starting early 2010 due to depressed feed demand. SBM imports in 2011 are likely to modestly increase from the previous year's level as the weather pattern normalizes and feed demand increases.

### Stocks:

Copra meal ending stocks were raised in MY08/09 as a result of increased copra meal supply during the period. Copra meal stocks in MY09/10 were also adjusted upwards and will grow modestly from the previous year's level as a result of increased copra crush during the period. Inventories of copra meal were pared down the following year and expected to decline from the previous year's level due to increased spoilage losses starting MY09/10.

SBM inventories in 2010 were adjusted upwards and are expected to increase from the previous year's level due to depressed feed demand. SBM stocks the following year will likely decline slightly as feed demand recovers and increases during the year.

### Policy:

Copra meal imports (HS Code 2306.50.00) are levied a 10 percent MFN import tariff but may be brought in duty-free under the CEPT scheme of the AFTA/ATIGA starting 2010. Imports of SBM (HS Code 23.04) during the same period, on the other hand, are levied a three (3) percent MFN rate and are also duty-free under the CEPT scheme.

### Production, Supply and Demand Data Statistics:

Meal, Copra Philippines	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Oct			Market Year Begin: Oct			Market Year Begin: Oct		
	2008			2009			2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Crush	2,260	2,620	2,560	2,600	2,620	2,650	2,640		2,450
Extr. Rate, 999.9999	0.	0.	0.3203	0.	0.	0.3283	0.		0.3265
Beginning Stocks	25	152	25	118	157	198	168		208
Production	740	855	820	850	855	870	863		800
MY Imports	0	0	0	0	0	0	0		0
MY Imp. from U.S.	0	0	0	0	0	0	0		0
MY Imp. from EU	0	0	0	0	0	0	0		0
Total Supply	765	1,007	845	968	1,012	1,068	1,031		1,008
MY Exports	297	520	297	400	520	325	425		325
MY Exp. to EU	0	0	0	0	0	0	0		0
Industrial Dom. Cons.	0	0	0	0	0	0	0		0
Food Use Dom. Cons.	0	0	0	0	0	0	0		0
Feed Waste Dom. Cons.	350	330	350	400	330	535	400		535
Total Dom. Cons.	350	330	350	400	330	535	400		535
Ending Stocks	118	157	198	168	162	208	206		148
Total Distribution	765	1,007	845	968	1,012	1,068	1,031		1,008
CY Imports	0	0	0	0	0	0	0		0
CY Imp. from U.S.	0	0	0	0	0	0	0		0
CY Exports	300	450	300	325	450	411	0		0
CY Exp. to U.S.	0	0	0	0	0	0	0		0
SME	158	149	158	181	149	242	181		242

Meal, Soybean  
Philippines

2008/2009

2009/2010

2010/2011



	Market Year Begin: Jan 2009			Market Year Begin: Jan 2010			Market Year Begin: Jan 2011		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Crush	39	41	39	100	45	34	110		34
Extr. Rate, 999.9999	1.	1.	0.7949	1.	1.	0.7941	1.		0.7941
Beginning Stocks	34	32	34	15	43	15	24		42
Production	31	31	31	79	34	27	87		27
MY Imports	1,295	1,500	1,295	1,450	1,600	1,200	1,500		1,300
MY Imp. from U.S.	456	550	456	350	600	350	350		400
MY Imp. from EU	0	0	0	0	0	0	0		0
Total Supply	1,360	1,563	1,360	1,544	1,677	1,242	1,611		1,369
MY Exports	0	0	0	0	0	0	0		0
MY Exp. to EU	0	0	0	0	0	0	0		0
Industrial Dom. Cons.	0	0	0	0	0	0	0		0
Food Use Dom. Cons.	0	0	0	0	0	0	0		0
Feed Waste Dom. Cons.	1,345	1,520	1,345	1,520	1,630	1,200	1,575		1,330
Total Dom. Cons.	1,345	1,520	1,345	1,520	1,630	1,200	1,575		1,330
Ending Stocks	15	43	15	24	47	42	36		39
Total Distribution	1,360	1,563	1,360	1,544	1,677	1,242	1,611		1,369
CY Imports	1,295	1,500	1,295	1,450	1,600	1,273	1,500		1,150
CY Imp. from U.S.	456	550	456	350	600	442	350		350
CY Exports	0	0	0	0	0	0	0		0
CY Exp. to U.S.	0	0	0	0	0	0	0		0
SME	1,345	1,520	1,345	1,520	1,630	1,200	1,575		1,330

### Commodities:

Oil, Coconut

Oil, Soybean

### Production:

CNO production in MY08/09 was revised upwards in view of higher copra crush during the period. Upward revisions were also made to CNO production the following year due to increased copra crush during the period. CNO output during the year will increase from the previous year's level enhanced by increasing CNO demand for industrial use. For MY10/11, CNO production will likely decline modestly compared to the previous year's level as a result of lower copra crush during the year.

Downward revisions were made to SBO production in 2010 as a result of similar adjustments made to SB crush during the year. SBO production is expected to marginally decline from the previous year's level as a result. SBO production in 2011 will likely stay at the 2010 level.

### Consumption:

To the credit of the Arroyo Administration, the country avoided most of the effects of the world recession in 2009. Despite extremely damaging storms, Philippine GDP expanded 0.9 percent last year, within the GRP's official 0.8-1.8 percent growth target. Remittances from OFWs continues to be the bright spot of the Philippine economy reaching a record \$17.3 billion in 2009 (over a tenth of GDP), up six (6) percent from \$16.4 billion in 2008 and projected to further grow 6 percent this year. OFW

remittances enhance consumption, check inflation and have a stabilizing effect on foreign exchange.

Average inflation rate last year was 3.2 percent, down sharply from 9.3 percent in 2008 and projected at 4.0 percent this year. Meanwhile, the average foreign exchange rate in 2009 was P47.6/\$, up 6.6 percent from P44.5/\$ in 2008. The Peso:Dollar exchange rate is currently hovering at the P45:\$ level.

For 2010, GRP economic planners predict a growth range of between 2.6 percent and 3.6 percent, consistent with expectations from the WB and ADB that Philippine GDP would more than double last year's growth rate in 2010.

CNO feed demand was pared down in MY09/10 and expected to decline from the previous year's level as a result of problems by the local hog and chicken industries. CNO feed use, however, is expected to recover slightly and increase the following year. CNO feed use in MY10/11 will, however, still be less-than-expected.

Overall domestic CNO consumption is expected to increase considerably in MY10/11 driven mainly by strong industrial demand, (mainly for coconut methyl ester or CME production, a local feedstock used for local biodiesel) as well as for food use of a rapidly growing Philippine population. CME demand increased as the required biodiesel blend as provided for by the Philippine Biofuels Act of 2006, was raised from 1 to 2 percent at the start of 2010. Plans to further raise the mandated blend are underway and its possible approval will further increase industrial use of CNO in the future. In addition, increasing global demand for biodiesel is expected to encourage more local CME production. Industrial domestic consumption of CNO was raised in MY10/11 and will increase from the previous year's level as a result.

For SBO, overall domestic consumption in 2010 is expected to decline from the 2009 level as a result of decreased supply during the period. No dramatic change is expected in SBO consumption in 2011.

**Trade:**

CNO exports in MY09/10 were raised and are expected to surpass the previous year's level due to strong global demand for edible oils. According to the UCAP's 2010 forecast, CNO exports this year will be driven by strong global food demand for oils and fats particularly in China, India and the emerging countries in Asia. The UCAP also expects CNO exports to benefit from the firm demand from Europe and South America for biodiesel blended diesel fuel.

Exports of CNO in MY10/11 were pared down and are likely to decline from the previous year's level consistent with the expected decline in CNO output during the year. The recent strengthening of the Peso relative to the US dollar is also expected to have a dampening effect on CNO exports during the period.

A strong Peso, however, is expected to enhance increasing SBO imports through 2011 to compensate for the likely production decline during the period.

**Stocks:**

CNO stocks are expected to increase in MY09/10 due to increased production output during the year but are likely to decline the following year due to heightened domestic demand.



CY Exp. to U.S.	0	0	0	0	0	0	0	0
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